SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Monteith | Analyst: Roger Lackey | Bill Number: SB 1553

Related Bills: See Prior Analysis | Telephone: 845-3627 | Amended Date: 04-03-00

Attorney: Patrick Kusiak | Sponsor:

SUBJECT: Property Tax Attributable To Sales Or Use Tax Paid On Purchase Of Agricultural Equipment Credit

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO ________________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED March 28, 2000, STILL APPLIES.

__X__ OTHER - See comments below.

SUMMARY OF BILL

This bill would provide a credit equal to the property tax paid or incurred during the taxable or income year that is attributable to any sales or use tax on the purchase of agricultural equipment (as defined).

SUMMARY OF AMENDMENT

The April 3, 2000, amendment altered the credit to be based on the amount of property tax paid or incurred that is attributable to any sales or use tax on the purchase of agricultural equipment, rather than for the sales and use tax paid or incurred.

As a result of the amendment, an additional state law discussion and a revised revenue estimate are provided below. In addition, the implementation considerations provided in the department's prior analyses still apply and are included for the author's convenience.

Except for the discussion in this analysis, the department's analysis of SB 1553, as amended March 28, 2000, still applies.

Specific Findings

For property tax purposes, the general rule in determining market value is that where price is the basis of value (property tax is assessed on value), the associated sales and use tax, freight, and installation cost is included in the value of the property. These items are included in market value because the items were part of the value (in this case "cost") of the property upon the property's acquisition. If these costs would have been applicable to a similar consumer using the equipment at a similar trade level, these costs may be included in value regardless of whether actually paid.. Generally, the property tax rate is 1.1% of the market value of the property.

Board Position:			Legislative Director	Date
_____ S	_____ NA	_____ NP	Johnnie Lou Rosas	4/20/00
_____ SA	_____ O	_____ NAR		
_____ N	_____ OUA	__X__ PENDING		

Policy Consideration

This bill provides a credit for property tax paid that is attributable to any sales or use tax on the purchase of agricultural equipment. However, sales and use tax can be included in the value of property for purposes of the property tax imposed on lessors of personal property (including agricultural equipment). The credit provided by the bill would not appear to be applicable to sales or use tax included in the value of agricultural equipment subject to lease.

Implementation Considerations

Since the Board of Equalization (BOE), in determining market value for property tax purposes, includes among other items sales and use tax, it is unclear if the BOE provides the taxpayer with a breakdown of what items constitute the market value of the property subject to property tax. This bill may require a taxpayer to annually determine the portion of the market value that is due to sales and use tax to calculate the credit accurately. Moreover, the property tax on any piece of personal property would decrease over time as the property depreciates in value. As a result, this bill would increase the complexity of the filing of income tax returns for affected taxpayers.

It is unclear what the term “winegrower operations” is intended to cover. “Winegrower operations” could be the vineyard in which the grapes are grown or a business at which the grapes are fermented into wine where such product is produced and bottled. This term should be clarified.

Since this bill would permit unlimited credit carryover, the department would be required to retain the carryover credit on the tax forms indefinitely. Recent credits provide carryover limits because experience shows credits are typically used within eight years of being earned.
Once the implementation concerns are resolved, implementing this bill would not significantly impact the department’s programs and operations.

Tax Revenue Estimate

The revenue impact of this measure, under the assumptions discussed below, is estimated to be as follows:

Revenue Impact of the Proposal Income/Taxable Years Beginning On or After 1/1/2001 Enactment Assumed After June 30, 2000 **(In Millions)**			
	2000-1	2001-2	2002-3
Revenue Impact	(.5)	($2)	($3.5)

The bill, as currently written, does not exclude equipment purchased in prior years. It is assumed that qualified equipment would have to be in California. This analysis does not account for changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

The estimates used the values of machinery and equipment on California farms from the 1992 and 1997 censuses (about $5 billion for 1997 and $4 billion for 1992). The annual growth rate implied from these figures was used to project these values into the future. An average sales/use tax rate of 7.25% was used for the calculations. The revenue estimates above are based only on the sales tax portion of the values of the machinery and equipment. The property tax was assumed to be 1.1%. Estimates took account of the fact that some farmers have operating losses or low net incomes for the year.

BOARD POSITION

Pending.